Grenada

Debt Summary

Grenada is a textbook example of why the economies of small island-states are so vulnerable to external factors. In the early 2000s Grenada had one of the highest growth rates in the Carribbean before it suffered from the double blow of natural disasters and the global financial crisis. In an attempt to help regenerate growth and correct its fiscal imbalances, the government has since taken out IMF bailout loans. However, these loans are said to have actually further destabilised and stagnated the national economy. Grenada now has debts totalling almost $679 million after a recent restructuring agreement.

Where Did The Debt Come From?

As a small island Grenada relies on a few sectors, particularly the export of nutmeg and the tourism industry, to fuel its economy. When Grenada was struck by two hurricanes – Ivan in 2004, and Emily in 2005 – these sectors took a hit as 95% of the buildings on the island were damaged and the vast majority of nutmeg trees were toppled. Indeed, estimates suggest total damage exceeded 2.5 times Grenada's annual GDP. Such severe problems were exacerbated by the global banking crisis in 2008 as potential tourists could no longer afford to visit. As a consequence, Grenada had to find a way to rebuild the national economy without the overseas revenues from exports and tourism. With no grants on offer despite the country's sudden vulnerability, Grenada was forced to take out substantial loans. The results have been nothing short of disasterous as the fiscal restructuring has severely hurt service provision yet still failed to generate the envisioned growth. Without it, Grenada's previously sustainable debts have spiralled out of control.

Costs to the Grenadian People

Without the availability of grant funding to help rebuild, cuts have had to be made in social service expenditure, which is having disasterous impacts upon the Grenadian population. The country's education structure has taken a strong hit with the number of teachers being reduced, and those in work often only being given temporary or short-term contracts. Furthermore, in the public health system important medical drugs have become scarce as funding dries up. The inability of the government to create opportunities for those affected by the hurricanes has meant that unemployment levels have reached an unsettling 33.5%. As a result many young Grenadians are moving abroad, creating a 'brain drain'. This has further reduced the country's ability to move past its current predicament.

Default Plan

In March 2013, seeing no chance of recovery from its situation, Grenada defaulted on its debt to private and most bilateral creditors (including the UK). At the same time, the government called for a creditors' conference in which it hoped to bring together the various stakeholders and reduce all its debts into something more sustainable. This novel and forward-thinking idea would have been the first of its kind, and was widely celebrated by campaigners. However, the creditors refused to partake in such an event and Grenada had to negotiate seperately with each individual creditor. Whilst the government did achieve reductions in the debt payments due to some lenders, it was subsequently encouraged to accept a three-year $21.9 million loan arrangement with the IMF to pay off other debts. Grenada exemplifies everything that is wrong with disaster loans. A disaster will always upset an economy's delicate balance but to counter this with loans instead of grants seems to only make the situation worse; the balance is further disrupted.

Factfile

Population
110,152

Life expectancy
73.8 years

96%
Total adult literacy rate

38%
of the population live below the poverty line

10.5 per 1000
Infant moratilty rate

Human Development Index rated
63
out of 187 countries

33.5%
Unemployment rate

The Jubilee Debt Campaign (UK) lobbys the government and international bodies to drop the debt, and has strong ties with Grenada
Learn more at:
www.jubileedebt.org.uk